Revitalizing Main Street

Economic Development & Job Creation Through a Rehabilitation Tax Credit

Recommendations from the 2013 Preservation Roundtable
A Rehabilitation Tax Credit is a Proven Strategy to

From Astoria to Burns, Oregon’s traditional downtowns have been the commercial heart and cultural soul of our communities. But big box stores, strip malls, and sprawl have drawn customers away, leaving buildings in a downward spiral of disinvestment and demolition-by-neglect. Too often the price tag of restoration, code upgrades, and seismic reinforcement creates a development gap, placing restoration financially out of reach.

Across the country there is a growing movement to turn this around. Thirty-four states are attracting investment in their Main Streets. They are leveraging charming storefronts, affordable rent, a central location, and unique sense of Place by providing State Rehabilitation Tax Credits. This has opened up a new frontier of opportunity for redevelopment of historic downtowns as centers of business incubation, housing, shopping, and heritage tourism.

It’s time Oregon did the same. Preservation and adaptive reuse has been a state priority since the 1960s, but the current tools fall short, leaving millions of dollars on the table, hundreds of restoration projects undone, and thousands of workers un-hired. In many cases, a State Rehabilitation Tax Credit would close that gap and bring historic commercial buildings back to life.

The Challenge:
• Create jobs and boost economic development in communities across Oregon.
• Attract capital investment to revitalize historic downtowns and commercial buildings, creating desirable places to live and work.

The Answer:
• Offer a state income tax credit for rehabilitation of Oregon’s best commercial buildings, those deemed historic by virtue of their age or significance. Most are found in our traditional downtowns.
• The tax credit (a percent of rehabilitation costs) can be taken directly by the property owner or transferred to a financial partner who provides funds for the rehabilitation work.
• State tax credits can be paired with federal tax credits and local incentives to close the “development gap” that arises from the cost of refurbishing older buildings and bringing them up to code.
• The rehab must meet established standards, retain historic character, and help make the building economically viable.

Why a Tax Credit?
• Oregon’s current financial toolkit falls short.
• Rehab tax credits work. Their effectiveness is proven in 34 other states.
• Rehabbing an old building creates more jobs dollar-for-dollar than new construction, manufacturing, mining, or timber.¹
• Because a State Rehab Tax Credit is often paired with Federal tax credits, Oregon will capture a larger share of Federal dollars.
• It puts muscle behind long-standing state goals for preservation and reuse.
• State incentives are the missing piece needed to close the “development gap” that prevents rehabilitation and reuse of some of Oregon’s best buildings.

Many of Oregon’s traditional downtowns are at a tipping point, half-empty, their historic facades in decay. Since 2010 Restore Oregon has hosted workshops across the state seeking solutions to revitalize these economic and cultural centers.

There is a small army of intrepid citizens eager to buttress foundations, re-shingle roofs, re-point brick, restore marques, re-glaze windows, and open businesses. They see the potential to remodel upper floors into housing, transform warehouses into office lofts, convert shuttered movie theaters into arts centers, and open restaurants that showcase local produce and microbrews.

These entrepreneurs of Main Street lack just one thing: a complete financial toolset. A State Rehabilitation Tax Credit is the missing piece.

It’s time we seize the opportunity to invest in the economic future of our historic downtowns.

Executive Director, Restore Oregon

¹ Data cited from the Urban Institute's Rebuild America Initiative.
Create Jobs & Revitalize Oregon’s Main Streets

Who Would Benefit?

- Historic downtowns seeking to reactivate buildings with new businesses, add housing, and attract heritage tourism.
- Property owners who currently can’t afford to rehab their storefronts, convert upper floors, pay for seismic upgrades, or bring their buildings up to code.
- Small businesses seeking an attractive space to open up shop.
- Civic leaders who want to see property values and tax revenues rise to pay for local services.
- The State seeking economic growth and tax revenues from new jobs.

Pertinent Statistics:

- 34 states offer a Rehabilitation Tax Credit. In 2013 Texas and Alabama joined the list, and Wisconsin quadrupled the amount of their tax credit.
- The Federal Rehabilitation Tax Credit (also known as the Historic Tax Credit) generates a net gain of over 20% in Federal tax revenues.²
- State Rehabilitation Tax Credits create a ripple effect in local economies. In Ohio, every dollar of state tax credit leverages $6.25 in investment. In Minnesota, every tax credit dollar creates $8.32 in economic activity. And in North Carolina, every tax credit dollar generates $12.51 in economic benefit.³
- Nationwide, 64% of net new jobs come from small business which often seeks out older buildings with character.⁴
- Historic buildings attract tourists. 83% of leisure travelers to Oregon visit cultural and heritage sites and Oregon’s potential market of cultural and heritage travelers numbers 47.5 million – a significant economic opportunity.⁵

A Modest State Investment With Big Returns
What Other States Are Doing

Thirty-four states have enacted tax credit programs as their primary tool for making the rehabilitation and reuse of historic buildings economically feasible. State Rehab Tax Credits allow a property owner to claim a percentage of their rehabilitation expenses against state income taxes and are usually designed to complement the Federal Rehabilitation Tax Credit. The federal credit is 20% for buildings on the National Register of Historic Places and 10% for non-listed buildings built prior to 1936. Most State programs are administered by the State Historic Preservation Office, set a minimum expenditure, and must adhere to rehabilitation standards. The amount of the tax credit and other details vary from state to state. Here is a simple summary.6

<table>
<thead>
<tr>
<th>State</th>
<th>Year Adopted</th>
<th>Eligibility</th>
<th>Commercial Credit</th>
<th>Annual Program Cap (Commercial)</th>
<th>Project Credit Cap (Commercial)</th>
<th>Transferable?</th>
<th>Owner-Occupied Residential Credit</th>
<th>Other Credit</th>
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<tr>
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<td>2013</td>
<td>National Register</td>
<td>25%</td>
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<td>No Cap</td>
<td>Yes</td>
<td>25%</td>
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</tbody>
</table>

* with geographic restrictions

Note: some states also extend their tax credit to local landmark properties or targeted economic zones.
One Example of Success: Virginia

The State of Virginia passed a rehabilitation tax credit tax in 1997 allowing owners of historic commercial and owner-occupied residential buildings to claim a credit of 25% of building rehabilitation costs. The work must meet the Secretary of Interior’s Standards for Rehabilitation and represent an amount greater than 50% of the assessed value (25% for owner-occupied residential properties). The credits may be claimed over the course of 10 years or transferred to another entity.

A 2008 study of the program concluded that in its first decade, $355 million in tax credits:

- Spurred the rehabilitation of more than 1,200 landmark buildings;
- Generated an economic impact of nearly $1.6 billion in the state; and
- Created more than 10,700 jobs and $444 million in wages and salaries.7

According to a study of property owners who received state tax credits, 93% of the respondents indicated that state tax credits were essential to their decision to undertake a historic rehabilitation project.8

According to the National Trust for Historic Preservation, states with the most successful programs offer tax credits “typically in the range of 20 percent to 30 percent of qualified rehabilitation expenditures. Rates that are significantly lower don’t provide enough incentive to make a difference in a developer’s decision to undertake a historic preservation project.”9 Additionally, states with higher caps (or no caps) on project size and annual credit allocations are typically more successful in spurring rehabilitation projects and providing certainty to prospective developers.
More Jobs

Study after study has demonstrated that building rehabilitation is an effective jobs generator, creating more jobs and better paid employees dollar-for-dollar than many traditional job programs. According to a 2013 study by Rutgers University, a “$1 million investment in historic rehabilitation yields markedly better effects on employment, income, Gross State Product, and state and local taxes than an equal investment in new construction or many other economic activities.” In Oregon, this $1 million generates 22 more jobs than investing in the timber industry. Because the rehabilitation of historic buildings relies more on labor than materials, the economic impact has a measurable ripple effect in local communities. In fact, 75% of the economic benefit stays within the local economy, supporting downtown businesses and sustaining jobs.

In 2012 on the heels of a deep recession, 26 communities participating in the Oregon Main Street Program saw a total of $3.4 million in private investment, a net gain of 65 new businesses, and 219 new jobs in their downtowns. This represents a tiny fraction of the potential of a State Rehab Tax Credit.

Environmental Stewardship

When people think about “green” building, they usually think new construction. But upgrades to existing buildings can yield greater long-term benefits. Simple energy retrofits of older commercial buildings result in an energy savings of 27% to 59%.

Existing buildings have embodied energy—the environmental costs already spent on materials and construction. If demolished and replaced by an efficient new commercial building, it takes approximately 43 years to overcome that environmental impact, making retrofits an important component of sustainability.

Heritage Tourism

One out of every eight jobs in the U.S. depends on travel and tourism. While our great outdoors has long been recognized as a draw for tourists, Main Street is where travelers go to spend money and experience the culture of our state.

According to a 2012 study, 83% of leisure travelers to Oregon are cultural and heritage travelers and spend an average of $1,618 per visit—60% more than the national average. Estimates say 47.5 million cultural and heritage travelers reside in Oregon’s feeder markets. Revitalized historic districts will give more travelers a reason to pull off the highway to shop, eat, and explore.

Seismic Resilience

Western Oregon faces an almost 40% chance of a 9.0 subduction zone earthquake off the coast in the next 50 years. Central and Eastern Oregon are also at a smaller but significant risk. In their current state of unpreparedness, historic downtowns are one of Oregon’s most vulnerable assets in the event of a seismic event.

Oregon cannot afford to replace all the unreinforced masonry buildings lining our Main Streets. Nor can we afford to have them leveled by an earthquake, costing lives, jobs, and the commerce of entire business districts for years to come. As summarized in the Oregon Resilience Plan, “Spending on resiliency today means spending less on recovery later.” Yet seismic reinforcement is complex and unaffordable to the average Main Street building owner without more financial support.
Our Current Financial Toolkit

Built with high quality materials and craftsmanship, historic buildings create a sense of Place along with economic, environmental, and cultural benefits for the communities in which they stand. But many suffer from decades of deferred maintenance and the cost of bringing these buildings up to modern codes often makes their redevelopment financially infeasible. This “development gap” must be closed for the private sector to make the necessary investments. An effective financial support system requires local, state, and federal incentives working together.

Local Incentives

Most commonly, local governments use tax increment financing to help offset the cost of rehabilitation. These property tax dollars can be used for grants and low-interest loans to private properties in designated Urban Renewal Areas (URAs). Oregon has 109 URAs in 75 cities, many of which encompass historic downtown areas.21

Occasionally city governments, such as Oregon City and Forest Grove, also offer grants to National Register properties. However, these programs are very limited and typically offer small amounts up to $5,000. Local Main Street Programs may offer consultative support for building rehabilitation, but rarely offer dollars. Some cities also offer zoning and regulatory flexibility for designated historic properties.

Statewide Incentives

Since 1975 Oregon has offered a property tax incentive to private buildings listed in the National Register of Historic Places, known as the Special Assessment Program. It has undergone many changes since inception. Today the program provides a 10-year freeze of the property’s assessed value when the owner implements a preservation plan that spends 10% of the property’s real market value in the first five years – a significant hurdle for many owners. Though an important tool, it largely benefits operational cash flow, and Main Street property owners have told us they need more help to finance upfront rehabilitation costs. It should be noted that Special Assessment is not state-funded, but effects local property tax receipts.

Currently the only state-funded support for rehabilitation comes from lottery funds allocated by the State Historic Preservation Office. Known as Preserving Oregon Grants, they target nonprofit and government-owned projects, and are rarely awarded to private property owners.

Federal Incentives

Several federal programs are available for the rehabilitation of downtown historic buildings, but it is the Federal Rehabilitation Tax Credit that is most applicable for Oregon’s Main Streets. Enacted in 1976, this program allows owners of National Register buildings in commercial use to claim a 20% federal income tax credit on the costs incurred rehabilitating the building. To receive the credit, the rehabilitation must meet the Secretary of the Interior’s Standards for the Rehabilitation of Historic Properties and represent an expenditure greater than the adjusted basis of the property.22

In Oregon in 2012, the Federal Tax Credit aided $84.5 million in rehabilitation projects, resulting in 1,496 jobs and $61.4 million in household income. Nationally, the program has been a jobs engine and has created a positive return on federal investment, not to mention boosting local and state tax revenues.23 Although a successful aid for larger projects, in its current form it is hard for smaller Main Street rehabs to qualify, due to the federal program’s high spending thresholds and other requirements, especially in states without a companion state rehabilitation tax credit.

Other Federal programs that are sometimes used for historic rehabilitation projects include the New Markets Tax Credit and Low Income Housing Tax Credit.

“The rehabilitation of historic buildings is a challenging business, often with modest financial rewards. We have walked away from many rehab opportunities because the available economic incentives were inadequate in light of the high cost of restoration. Historic buildings in smaller towns are especially difficult because their income potential is typically less than we see in Portland. There is no doubt that a state income tax credit would make many more Main Street-scale projects economically viable.”

Craig Kelly
President, Venerable Group, Inc.
How Oregon’s Current Incentives Fall Short

The financial realities of rehabilitation on Oregon’s Main Streets leave many property owners with a “development gap” that often makes restoration and reuse unfeasible. Historic buildings are expensive to repair, especially when they’ve suffered decades of deferred maintenance or disinvestment. But their preservation and reuse serves a broad public benefit culturally, environmentally, and economically.

Our current roster of incentives is missing meaningful state-level participation. We are not leveraging local, state, and federal resources to their full potential, and the vitality of our downtowns is suffering because of it.

Underutilizing Available Federal Funds

The Federal Rehabilitation Tax Credit provides a powerful tool for Main Streets nationwide; however, the minimum spending requirement is too high for many small-scale redevelopment projects to qualify and even those that do meet the spending threshold still don’t pencil out financially without additional incentives at the state and local levels.

According to Rutgers University, “states with the strongest state historic tax credit statutes regularly lead the nation in the use of the Federal Rehabilitation Tax Credit.” Without state-level financial support for Main Street, Oregon can expect to watch federal dollars flow faster and in greater amounts to other states.

Disproportionate Reliance on Local Revenue

Oregon’s Special Assessment Program has thwarted neglect and demolition of hundreds of historic buildings around the state. However, due to property tax limitation measures of the 1990s, changes to the program’s expenditure requirements, and the incremental nature of the incentive’s payback, Special Assessment alone does not sufficiently narrow the development gap that stymies rehabilitation of downtown commercial buildings.

Because Special Assessment freezes a property’s assessed value, it curtails property tax revenues, directly competing with local funding sources such as urban renewal which rely on increased property values. Oregon should add state dollars to the mix to evenly spread investment among local, state, federal, and private beneficiaries of downtown revitalization.

Sidestepping Public Safety

While storefront-scale projects that are typical of local incentive programs do help downtown businesses, historic buildings need more than paint and new awnings. Built before the establishment of modern building codes and predictions of a major earthquake in Western Oregon, these buildings need Fire & Life Safety systems and seismic reinforcement to become safer places to live, work, and shop.

Today’s codes do not mandate seismic retrofits except when triggered by change of use or certain spending levels, leaving most seismic upgrades an expensive, yet voluntary, safety goal that is rarely achieved. This lack of seismic resiliency leaves entire districts at risk of collapse in an earthquake, placing lives and the state economy at risk. Historic buildings can be retrofitted, but an additional incentive is needed to impel owners – many of whom acquired their buildings before seismic risks were understood – to make that investment.
Case Study: Albany’s St. Francis Hotel
A Catalytic Project That Won’t Happen Without a State Rehab Tax Credit

Since 1986 the City of Albany has had a goal of seeing the St. Francis Hotel brought back to life. At 34,000 square feet it is the most prominent building in Albany’s historic downtown. Listed as one of Oregon’s Most Endangered Places in 2012, three of its four floors sit empty and deteriorating. A conceptual reuse study commissioned by Restore Oregon demonstrated that this National Register-listed property has plenty of redevelopment potential and, if restored, would have a transformative effect on downtown by bringing needed customers to businesses and restaurants.

The study identified that a mixed-use redevelopment of the St. Francis into ground floor retail, 20 hotel rooms, and 14 market-rate apartments would provide the greatest economic opportunity for the building and the downtown. The proposed rehab would include restoration of historic architectural features; a new roof; new mechanical, electrical and plumbing systems; a seismic upgrade; an elevator; ADA access; fire suppression systems; and all interior finishes. The estimated cost, including property acquisition, design, engineering, construction, and other fees, would total $10.5 million.

A financial pro forma was created to determine the financial viability of the project. The amount of private investment that historic redevelopment projects can attract directly correlates to the projected operating income. Though the projected income for the St. Francis is respectable, it is not enough to garner sufficient private investment to cover the entire cost of rehabilitation, even after utilizing all available incentives. There remains a development gap.

Based on the pro forma, a 20% State Rehabilitation Tax Credit would close the gap for the St. Francis Hotel and make the project financially attractive to private investment. It assumes that tax credits are transferred to an investment partner to provide upfront project funding. (A copy of the pro forma is available for review upon request.)

Without additional incentive dollars, this cornerstone of Albany’s downtown is unlikely to be redeveloped and will continue to deteriorate.
Oregon is a national leader in land use planning, small business development, and enhancing quality of life. We have embraced and codified the goal of preservation and reuse. There is a clear public benefit in restoring our Main Streets and historic commercial districts, making them more productive contributors to our economy.

Restore Oregon recommends that Oregon join 34 other states and adopt a state income tax credit for the rehabilitation of historic commercial buildings as an effective strategy to create living wage jobs, sustain community infrastructure, and retain cultural identity. Further, we recommend that the tax credit target those income-producing buildings designated on the National Register of Historic Places so that public dollars are invested in our most important assets.

Over 10,600 buildings are National Register-listed in Oregon, either individually or as part of a district. Approximately 2,600 are in commercial or income-producing use, including apartment buildings, retail stores, office buildings, warehouses, and barns. Of these, two-thirds are outside of Portland with the overwhelming majority located in our traditional downtowns.

Though the specifications of a tax credit would be determined through the legislative process, a successful program would achieve these goals:

- Significantly increase the number of buildings restored and reused.
- Bring housing and businesses downtown.
- Create and sustain living-wage local jobs.
- Generate a measurable economic return.
- Result in safer buildings and downtown districts.
- Complement the Federal Rehabilitation Tax Credit and attract more Federal dollars to Oregon.
- Be simple and straightforward, accessible to smaller Main Street projects.

A baseline State Rehabilitation Tax Credit would apply to historic income-producing properties and would be transferable to attract funding for upfront construction costs. Oregon could enhance the program’s effectiveness by including additional features to spur economic development:

- Take a two-tiered approach, offering a smaller credit to rehab older commercial buildings not listed on the National Register.
- Offer a tax credit for compatible new development in historic downtowns, to infill empty lots.
- Allow non-profit organizations to utilize the credit.

Oregonians from all walks of life and every corner of the state would benefit from a Rehabilitation Tax Credit and its impact would be felt for generations. Restore Oregon urges state leaders to seize this opportunity in the next biennium.
## Background and Acknowledgements

Restore Oregon, originally founded in 1977 as the Historic Preservation League of Oregon, is a 501(c)(3) nonprofit whose mission is to **preserve, reuse, and pass forward Oregon's historic resources to ensure livable, sustainable communities**. Headquartered in Portland and operating statewide, Restore Oregon provides advocacy support, education programs, technical assistance, and stewardship of over 40 conservation easements on historic properties across Oregon. The organization also offers financial and technical assistance to save an annual list of **Oregon's Most Endangered Places**.

In 2010 we launched the Preservation Roundtable as a mechanism to bring Oregonians together to address the challenges confronting Oregon’s historic places, particularly the complex issues that stymie the health of our historic downtowns. Each Roundtable addresses a specific challenge, engages stakeholders in charrettes to identify solutions, and culminates in a special report. To date, approximately 500 people have participated.

Because a recurring theme in each of the previous Roundtables was a call for better financial tools for Main Street rehabilitation, in 2013 we chose the theme of **Rehabbing Oregon’s Incentives for Historic Preservation**. Our thanks to the **Oregon Main Street Program** and the communities of Albany, Astoria, Bend, Coos Bay, La Grande, and McMinnville for their valuable input and for hosting our focus groups.

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This Special Report was authored by Peggy Moretti and Brandon Spencer-Harlte, January 2014.

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22. The adjusted basis of a building typically equals the purchase price of the property, minus the cost of the land, plus improvements made, minus depreciation.
25. For further reading, see "Resilient Masonry Buildings" (Restore Oregon, 2012).
27. Oregon Historic Sites Database. http://heritagedata.prd.state.or.us/historic/
28. Current use of designated historic buildings is not tracked. A study by Restore Oregon found approx. 2,600 National Register-listed buildings are used for income producing purposes, excluding single-family rental homes.